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GERMANY

International Accounting Standard Board (IASB)  
30 Cannon Street  
London EC4M 6XH  
UK

December 15, 2010

Re: IEAF Comment Letter on the IASB Exposure Draft "ED/2010/9 Leases"

Dear Sir David,

The International Energy Accounting Forum (IEAF) consists of major international companies in the electricity, gas, coal and oil business. The goal of the IEAF is to discuss and formulate best practices to apply IFRSs for our industries and take part to the discussions regarding the development of new standards and interpretations. For further information please refer to [www.ieaf-energy.com](http://www.ieaf-energy.com).

We thank you for the opportunity to provide comments on the ED dealing with leases. First of all we want to affirm that we have no pervasive problem with the existing IAS 17 standard. In fact, the present model based on risks and rewards analysis allow us to account appropriately for simple and complex transactions whether we are lessor or lessee.

We strongly disagree with the opinion that the present IAS 17 standard provides opportunities to "structure" transactions because we think that the risk and reward analysis is the best way to prevent from "structuring".

On the contrary, the so-called "gray areas" will be even more numerous with the proposed standard. The proposed model is very complex, accounting is not consistent between the lessee and lessor and we feel that the definitions of service/lease contracts, purchase/sale/leases are not elaborated on a substance basis.

Even if we have noticed real improvements by comparison with the DP, we still have concerns which are:

1. IFRIC 4 which has been very partially included in the proposed new standard, is according to us, not robust enough, to distinguish appropriately transactions that are in the scope from those out of the scope. The practical issues already encountered in applying IFRIC4 would remain (or even increase due to reduced guidance given in the ED compared to the existing IFRIC 4) as the proposed model did not result in any decisive improvement or clarification of IFRIC 4.
2. Moreover such a difference between present accounting models and the new proposed models should be supported by a strong background and cannot be set up without a complete study on the reasons justifying this difference and possible collateral effects of this type of "asset and liability" accounting especially with regards to executory contracts. The critical question of what is a lease and how to distinguish it from a service or executor contract is not satisfactorily addressed.
3. Whereas we have in some particular and complex transactions (purchase of capacity) real difficulties with present IFRS to distinguish if we have bought (or sold) a portion of a PPE, a right over a PPE or a mere service, the present ED which uses the concept of right over an asset is not of any help for us because underlying concepts have not been developed further.
4. The proposed accounting models are too complicated, lead to disclose new kinds of assets and liabilities (some of which are disclosed on the asset side of the balance sheet!), and will appear to be less transparent for most of internal and external users. Please find a tentative illustration on the FS in Appendix. We feel that the key qualitative characteristics of financial statements as addressed in the Framework, understandability, relevance, substance have been ignored by the Board.
5. Concerning lessee accounting, the proposed model ignores the reasons why an entity enter into a lease in place of a purchase. The accounting model is the same even if the business model, the financing capacity ... are different.
6. The last but not the least, the proposed model will be costly for preparers (changes in information systems, internal controls, training) and we are not convinced about its potential benefits for users.

In our opinion, the proposed paper does not represent an upgrading of accounting for leases.

We think that the preparers and users concerns should be addressed by limited improvements of the presents standards in specific areas of identified weaknesses (e.g. contingent rental, term, determining whether an arrangement is a lease) and appropriate disclosure. In fact, we think the IASB should not throw the baby out with the bathwater: IAS 17 should not be removed because some have not applied it correctly.

We would be pleased to meet you to discuss any of these matters and particularly to explain the difficulties that we face in applying IFRIC 4.

In addition to these main comments, answers to the questions of the invitation for comments are provided in the appendix.

Kind regards,

Britta Leippe, Lars Nyberg, Nathan Reeve, Philippe Vergote

Board Members of the International Energy Accounting Forum (IEAF)

'For and on behalf o the IEAF'

A handwritten signature in blue ink, consisting of a large, stylized 'P' followed by several vertical strokes and a horizontal line at the bottom.

Philippe VERGOTE

## **Appendix: Answers to the specific questions raised in the invitation for comments on the ED Leases**

### **The accounting model**

#### **Question 1: Lessees**

***(a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?***

***(b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?***

(a) We strongly disagree for the following reasons:

- 1 We think that the right to use an asset is not necessarily an asset by itself and the attached obligation is not necessarily a liability because both can be conditional to each other. We note that the way the lease term is determined, i.e. the longest possible term that is more likely than not to occur, conflicts with the paragraph 61 of the framework which states that an obligation normally arises only when the asset is delivered or when an entity enters into an irrevocable agreement to acquire an asset and has little if any discretion to avoid payment because of economic consequences of failing to honour the obligation.
- 2 We think that the Board analysis is not consistent with executory contract accounting and we wonder why the Board does not justify the reason why they prefer trying to be consistent with the asset and liability definition in the framework rather than the accounting treatment of executory contracts of the framework<sup>1</sup>.
- 3 We see no reason to limit the Board analysis to lease contracts. Actually, if the example given in paragraph 3.6 of the DP were to be applied to a service contract, the conclusions would be the same: the client has the right to be delivered a service and an obligation to pay for the service rendered. The right is an asset because 3.13 a b and c criteria of the DP are fulfilled and the obligation is a liability because 3.14 a b and c criteria are of the DP fulfilled.
- 4 In fact the IASB approach appears to be a new and revolutionary concept which would deserve a much broader analysis. Actually each contract with stakeholders gives rise to

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<sup>1</sup> Cf paragraph 91 of the framework

- rights and obligations for the entity (service contract, contracts with employees, PPE or inventory ordered but not received, financing contracts with lenders, government grants... ). Should such rights and obligations be accounted for as well? The new concept should be tested for all these type of transactions to be sure that it is workable and worth to be sustained.
- 5 We however acknowledge that the concept of executory contract is pragmatic rather than based on concept and is some kind of easy way to avoid more profound questions. When considering the work done on ED revenue and ED leases, we believe that if the IASB want to make significant progress it is worth to go into those points in depth.
- 6 The proposed accounting is significantly different from the accounting for services. It has very different impacts upon major financial indicators such as net income, Ebitda, capital employed and debt. Consequently, contrarily to one of the Goals of the IASB<sup>2</sup> and because we think the definition of a lease is not clear (see our answer to question 4), in our opinion the proposed standards would lead to more structurations opportunities as to achieve a contract classification as lease or service.

(b) We agree that when a leased asset and a lease liability are appropriately accounted for the asset, should be amortised and the liability should generate interests.

## Question 2: Lessors

***(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?***

***(b) Do you agree with the Boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?***

1. No, we do support this approach as the lessee accounting is not consistent with the lessor accounting. We do not understand why the "risk and benefits" approach is not symmetric and we will not support this approach until this inconsistency (as we are both Lessor and lessee) is not addressed.

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<sup>2</sup> CF DP 2009 /1 1.12 c

We believe that the present scope of the ED encompasses two different types of transactions which must be accounted for differently:

- 1 In substance purchases of the underlying asset
- 2 In substance right to use the underlying asset

We think that an in substance purchase of asset should lead to account a purchase transaction i.e. to account for the underlying asset (usually a tangible asset) and to account for the financing.

We believe that a mere right to use an asset is different in nature, because the lessee in that case does not bear substantially all the risks and rewards incidental to ownership of the asset.

In our opinion the present IAS 17 risks and rewards criteria used to distinguish operating lease from finance lease is the best way to discern those different transactions. So we appreciate that the distinction between the two proposed models is made under the criterion of whether the lessor retains exposure to significant risks or benefits associated with the underlying asset.

(b) However we think that the right to use an asset is not necessarily an asset of itself and that the symmetric obligation is not a liability of itself either. On the contrary we are of the opinion that economic consequences of failing to respect symmetric rights and obligations of contract should be contemplated before accounting for assets and liabilities of all contracts (lease or service contracts).

Consequently we do not support all of the Board proposals for the accounting for the recognition of assets and liabilities:

1 Derecognition model: We could agree in principle with the accounting for derecognition of the asset in proportion of fair values of assets and lease rental generating a profit when the asset is derecognised and the accounting for the residual asset (measurement and amortisation rules). However as it is assumed that the lessor does not retain a significant part of risks and benefits we expect that the residual asset shall not be material in most cases and we question the necessity to keep this model. We wonder model applicable to so called in "substance purchases" and "derecognition model" should be merged in a single model as it is the case in present standard.

2 Performance obligation model: we do not support the accounting for a lease liability and for a right to receive lease payments for the reasons stated above. We only agree the non derecognition of the sub-lying asset.

### Question 3: Short-term leases

*The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:*

*(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).*

*(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).*

*(See also paragraphs BC41–BC46.)*

*Do you agree that a lessee or a lessor should account for short-term leases in this way?*

*Why or why not? If not, what alternative approach would you propose and why?*

We agree as it is a pragmatic simplification with no material effect on the reliability of the accounting rules. However we think that in most cases the effect of discounting would be immaterial and that the proposed accounting leads to a dissymmetric accounting between lessor and lessee.

### Definition of a lease

#### Question 4

*(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?*

*(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?*

***(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?***

(a) (c) We think that this the most questionable part of the ED. We share the concerns of some constituents which were reported in paragraph 2.6. of the DP: we think a lease is not defined appropriately and think the Board has under estimated the concern.

We are worried that the presently prevailing application problems resulting from IFRIC 4 will persist if the proposed route is indeed pursued. Previous experience has shown that the application of IFRIC 4 –in particular the delimitation of contracts for services (service contracts) from contracts pertaining to the use of certain assets– contains huge gaps in areas of major importance (Cf the issue of portions of assets which is not dealt with in IFRIC 4) and has caused a lot of uncertainty in the enterprises' accounting departments, resulting in a number of varying approaches being used in practice. Moreover, the application may lead to results that give an incorrect picture of the economic reality. In the accounting practice to date, the application issues with IFRIC 4 could have consistently had nothing but a minor negative impact when the (supposed) embedded leases had to be classified as operating leases on grounds of the quantitative criteria.

Against the background of the Board's intention to renounce the distinction between "operating" and "finance" leases, these delimitation issues will gain material importance if the provisions of IFRIC 4 are included in the new lease standard.

In order to express some difficulties the energy sector has with the application of IFRIC 4, here is an example through contracts on the delivery / purchasing of electricity:

*Enterprises operating in energy-intensive industries often sign long-term electricity purchasing agreements with energy supply companies. These agreements lead the electricity company to provide electricity deliveries to the enterprise in question over a pre-defined period of time. The delivery price has been determined when the contract is concluded, even though this is not something that would be called a fixed price. Frequently, the delivery price is guided by the cost structures of a power plant (or power plant fleet) of the respective energy supply company (plus a profit margin). The basic idea of such a contractual relationship is for both sides to reduce market price risks.*

We regard the application of IFRIC 4 to power plants in the energy sector generally as consistently not appropriate, alone because the electricity used by the customer is - because of the specific properties of electricity – invariably not the electricity generated in the power plant in question. This would only be the case if there was a dedicated power line connecting the power plant and the customer. In a vast majority of cases, this is not the case. The general procedure is that the power plant operator feeds the produced electricity into the power



system, and the customer takes the electricity off the system. Balancing between all in-feed from power plants and take-off by customers is the responsibility of the system operators.

Nevertheless, some contractual relationships might have to be qualified as a lease by application of IFRIC 4 (and in connection with application of the rules proposed in the Exposure Draft) although the delivery/purchasing of electricity is the subject of the agreement. This issue will arise in cases where the delivery contract provides for delivery to be made by a certain power plant (see IFRIC 4.7 / ED B.2). This may cause considerable delimitation problems. IFRIC 4.7 does not rule out the accounting treatment of a specific contract as a lease in the event of warranty obligations. This is the case if the contract permits or demands replacement by identical or equivalent assets (here: power plants) if the asset in question (here: the power plant that forms the basis for valuation of the contract) fails to work correctly. For technical reasons (unscheduled and scheduled outages, demands lodged by the system operator etc.), it is not unusual that the contracted electricity deliveries are actually made by other power plants of the same operator.

A further delimitation problem results from the technical structure of power plants. Some of them consist of several generation units. If the electricity agreed in the delivery contract is delivered by a certain generating unit, this unit alone might represent the "specific asset" within the meaning of IFRIC 4.6 (also, a share in output that could no longer be called immaterial would be reached much earlier for an individual unit than for the power plant as a whole). One might therefore reach the conclusion that this certain power plant unit would have to be treated as a leased asset. This, however, would ignore the fact that a power plant unit is technically very closely linked with the other power plant units and additionally with other, non-unit specific components of the power plant, and would in most cases not be able to function on an isolated basis. Recording this certain power plant unit as a leased asset would therefore be tantamount to misleading accounting that would fail to give a fair view of the reality. Also, the total capacity of the power plant operator's power plant asset(s) would frequently not be recognizable for the customer, so that it cannot be determined whether the output is more than immaterial.

Finally, the view could be held that -even in the case of an electricity delivery contract covering a major share of the power plant output- it is a certain amount of capacity rather than the power plant as a whole that it is made available. The reason is that the customer invariably has no access to the power plant assets. Rather, the customer just informs the power plant operator of its needs through what is called schedule management, and the power plant is dispatched accordingly. Legal and economic ownership including the responsibility for operation of the power plant remains with the power plant operator. In this case, the contract can be regarded as a contract on use of capacity and thus, constitutes an intangible asset for the customer

Moreover, when IFRIC 4 does not give a clear answer to whether a contract is a lease, we presently proceed to a risks and rewards approach to determine whether we should account for the sub-lying asset or not

In summary, we therefore hold the view that there are real difficulties concerning the analysis, under IFRIC 4, of some contracts from the energy sector. Sometimes, some pretty heavy-weight arguments speaking in favour of electricity delivery contracts – even if they are contractually tied to certain power plant assets – make entities conclude that these contracts do not come under the scope of application of the leasing rules.

For these contracts, difficulties would become decisive because of the difference of treatment between service contracts and lease contracts.

Thus, we think that the definition of a lease in this ED, mostly based on IFRIC 4, would mean that the prevailing uncertainty about how to apply the rules regarding embedded leases will persist. The planned revision of the rules for lease accounting would distinctly aggravate these insecurities and make the different approaches that have emerged in practice much more problematic.

(b) No as we think that the substance purchases” and “derecognition model” should be merged in a single model as it is the case in present standard.

## **Scope**

### **Question 5: Scope exclusions**

***The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).***

***Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?***

We think that intangible assets should not be scoped out.

We also think “in substance sales” that are scoped out with the help of a risks and rewards analysis inconsistent with the notion of transfer of control of the ED revenue should stay within the scope of the standard and that the accounting for these transactions should be applied to transactions eligible to derecognition model.

**Question 6: Contracts that contain service components and lease components**

*The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:*

- (a) the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.*
- (b) the IASB proposes that:*
  - (i) a lessee should apply the lease accounting requirements to the combined contract.*
  - (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.*
  - (iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in Revenue from Contracts with Customers.*

*Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?*

We agree with the IASB position. We understand the consistency problems raised by the FASB. However we think that recognising transactions at the right times in PL is more important.

**Question 7: Purchase options**

*The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).*

*Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?*

We disagree and think that the option should be included in the lease liability if it is likely that it will be exercised as any other option to prolong etc.

## Measurement

### Question 8: Lease term

***Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?***

We do not agree with the proposed accounting model. Nevertheless we agree that such proposal should be included in a risk and benefits analysis.

### Question 9: Lease payments

***Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?***

***Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?***

No we do not agree as we are strongly against measuring assets or liabilities with expected outcome technique for single transactions.

In fact these techniques are very artificial because they rely on scenarios that are only contemplated for accounting. Moreover, they are time consuming, and result in an accounting under a scenario that is 100 % sure not to happen.

We would propose a best estimate approach based on management expectation to account for contingent rentals, payments under term options penalties and residual value guarantees.

### Question 10: Reassessment

***Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive***

***lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not?***

***If not, what other basis would you propose for reassessment and why?***

We agree because we think that the assets and liabilities should mirror the transaction.

However our answer is given in a context where no assets and liabilities should be accounted for transactions presently classified as operating lease.

## **Sale and leaseback**

### **Question 11**

***Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?***

We agree with the use of the B9 criterion of “transfer of all but a trivial amounts of risks and benefits” and specific indicators listed in B 31.

However we are not sure of the consistency of this guidance with the ED revenues.

## **Presentation**

### **Question 12: Statement of financial position**

***(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)?***

***Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?***

12 (a) If the project were to be kept unchanged by the Board we would agree to account for liabilities to make lease payments separately from other financial liabilities. This is because we think that some lease liabilities would not be real financial liabilities.

We do not agree to account for right-of-use assets as if they were tangible assets within PPE but separately from assets that the lessee does not lease, because we think that it is not the right place for a right to be accounted for.

However we feel that this proposition of classification shows that the Board is not comfortable with the nature of the leased asset because under the current proposition two different types of transactions are accounted for similarly. In fact an entity can enter into a lease transaction under two different economic circumstances. On the one hand an entity can enter into a lease to finance the purchase of an asset; on the other hand an entity enter into a lease to benefit from the use of an asset because the entity seeks flexibility, lacks financing means or prefer to finance other activities such R&D or external growth. In the first case the asset should be accounted for as a PPE, in the second case if an asset is to be accounted for it should be accounted for as an intangible.

***(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?***

We do not agree with the proposed accounting as stated in our answer to question 2. We think that for transactions where the lessor retains significant risk and rewards (i.e. eligible to the performance obligation model) the only asset or liability to be accounted for should be the underlying asset.

Rights to receive lease payments and lease liabilities should be presented in the notes. In any case we feel that the proposed presentation in for levels is far more complicated for the ordinary man.

***(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?***

We do not agree with the proposed accounting as stated in our answer to question 2.

Rights to receive lease payments should be presented in the notes.

***(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?***

No, see our answers to questions above.

**Question 13: Statement of comprehensive income**

***Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?***

There is no reason why if the Board is really sure that lease assets and leases liability are real assets and liabilities to compel preparers to present within the PL related income and expenses separately. It should be only a matter of judgment of the entity.

**Question 14: Statement of cash flows**

***Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?***

Same answer as above.

**Disclosure**

**Question 15**

***Do you agree that lessees and lessors should disclose quantitative and qualitative information that:***

- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and***
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows***

***(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?***

We support the objectives and principles outlined in paragraph 70 to 72. However we are concerned by the load of information to be disclosed according to paragraphs 73 to 86.

Giving so much information of different nature will be not only costly but could lead to unintelligible and vague information.

We are of the opinion that requirement upon disclosure should focus on key information so that users understand the underlying judgments and assessments used for calculating the obligation-to pay rentals and right-to-use asset.

We think that requiring so much information when requiring in the same time so profound changes in accounting demonstrate that the issue is not adequately addressed.

## **Transition**

### **Question 16**

***(a) The exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186– BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?***

***(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?***

***(c) Are there any additional transitional issues the Boards need to consider? If yes, which ones and why?***

The proposed model leads to very different impacts on major key financial indicators. It is not only a question of timing as described in AV9 but also particularly in the case of lessee accounting a “permanent difference” with the present accounting. So the implementation of the standard is likely to have significant impact on financial statements and indicators.



So in principle we favour a retrospective approach.

On the other hand the model is complex and applicable to very long term transactions and in some cases it will be impracticable to apply the standard retrospectively. Consequently for those transactions we are in favour of the simplified retrospective approach that the ED proposes.

## **Benefits and costs**

### **Question 17**

***Paragraphs BC200–BC205 set out the Boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the Boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?***

No we do not agree. Major costs will have to be incurred to change information systems in order to account for transactions and give the required disclosure.

We are also concerned by the complexity of the model which is not easily comprehensible for in terms of principle, measurement and presentation of information for the management.

Applying a unique lessee model ignoring the sub lying economics of transactions, while applying 2 models for lessor based on risks and rewards is also difficult to understand.

## **Other comments**

### **Question 18**

***Do you have any other comments on the proposals?***

No.

Appendix:

assets		liabilities	
PPE	PPE asset IAS 16 lessor residual asset arising from leases derecognition approach lessor residual asset arising from sub leases derecognition approach lessee right of use underlying PPE under PO approach lessor right to receive lease payment arising under leases PO approach (lease liability under PO approach) net lease asset under PO approach intermediate lessor underlying asset (right of uses) under PO approach intermediate lessor right to receive lease payment arising under leases PO approach (intermediate lessor lease liability under PO approach) intermediate lessor net lease (or liability) asset under PO approach financial assets IAS 39 lessor right to receive lease payment arising under leases following derecognition approach lessor right to receive lease payment arising under sub leases following derecognition approach	net lease liabilities underlying PPE under PO approach lessor right to receive lease payment arising under leases PO approach (lease liability under PO approach) net lease liability under PO approach intermediate lessor underlying asset (right of uses) under PO approach intermediate lessor right to receive lease payment arising under leases PO approach (intermediate lessor lease liability under PO approach) intermediate lessor net lease (or liability) asset under PO approach financial liabilities IAS 39 lessee liability to make lease payment	
net lease assets			
financial assets			

in black: non lease asset or liability  
 in bold: lease asset or liability  
 in green: lessee asset and liability  
 in blue: lessor asset and liability performance obligation model  
 in red: lessor asset and liability derecognition model